GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:4893
ANSWERED ON:24.08.2001
GUIDELINES FOR INITIAL PUBLIC OFFER
UMMAREDDY VENKATESWARLU

Will the Minister of FINANCE be pleased to state:

(a) whether there are no guidelines issued by the RBI for banks to provide financing for IPO;

(b) whether Financial Institutions have been taking advantage of this lapse; and

(c) if so, the steps taken to formulate some interim rules for loaning to IPOs ?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI BALASAHEB VIKHE PATIL)

(a):- In terms of Reserve Bank of India`s (RBI) circular dated May 11, 2001, banks have been permitted to grant maximum amount of advance of Rs.10 lakh to an individual for subscribing to Initial Public Offerings (IPOs)Banks are not permitted to extend finance to corporates for investment in IPOs of other companies.These guidelines further stipulate that banks should not provide finance to NBFCs for lending to individuals for subscribing to IPOsBanks have also been advised to include finance extended for IPOs as an exposure to capital market for the purpose of arriving at 5% ceiling prescribed for banks` exposure to capital market.

(b) & (c):- RBI has reported that no lapses in regard to banks` funding of IPOs have come to its notice.However, RBI have advised banks having exposure to capital market in excess of 5% ceiling to submit time bound plan for gradually reducing their excess exposure to capital market in line with 5% prudential ceiling prescribed by it.